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EB-11 EA-11 FRB-03 INR-11 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-03 LAB-06 SIL-01 SWF-02

OMB-01 ARA-16 AF-10 SAJ-01 SS-20 NSC-07 FEAЕ-00 SCI-06

INT-08 AGR-20 AEC-11 PM-07 STR-08 L-03 H-03 PA-04

PRS-01 USIA-15 DRC-01 /282 W

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P R 201758Z SEP 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5199

INFO USMISSION OECD PARIS PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BONN 14984

E.O. 11652: GDS

TAGS: EAID, GW

SUBJECT: GERMAN AID TO LDCS: THE DAC REVIEW AND
NEW TRENDS IN FRG AID

1. IN RECENT DISCUSSION WITH MID-LEVEL FRG AID
MINISTRY OFFICIALS, WE HAVE NOTICED A SHARP REACTION
TO THE REPORT BY THE DAC SECRETARIAT ON THE FRG'S
AID POLICY AS CONTAINED IN DAC/AR(74)2/01. THESE
OFFICIALS CLAIM THE SECRETARIAT PERSONNEL FAILED
TO ACKNOWLEDGE THE IMPACT ON AID PROGRAMS OF THE
CURRENT WORLD-WIDE ECONOMIC REALITIES OF HIGH ENERGY
PRICES AND THE RESULTANT WORLD-WIDE INFLATION. THEY
ALSO CLAIM THE SECRETARIAT HAS MADE SOME (UNSPECIFIED)
MISTAKES IN REVIEWING THE FRG'S PROGRAM. THEY
TELL US THE FRG DELEGATION TO THE SEPTEMBER 23 MEETING,
TO BE HEADED BY DEPUTY ASSISTANT SECRETARY MOLTRECHT,
WILL LIKELY TAKE A HARD LINE IN RESPONSE TO CRITICISMS
OF THEIR PROGRAM.

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2. ALTHOUGH A DEBATE CONTINUES TO RAGE WITHIN THE AID MINISTRY OVER THE FUTURE OF FRG AID, THE PARAMETERS OF A NEW AID STRATEGY SEEM TO BE DEVELOPING. GENERALLY THIS STRATEGY IS REFERRED TO AS A "MORE PRAGMATIC APPROACH TO THE AID PROGRAM." THIS APPROACH IS DEFINED AS A REDUCTION OF AID LEVELS AS PART OF THE FRG EFFORT TO COMBAT INFLATIONARY PRESSURES BY TRIMMING GOVERNMENT EXPENDITURES AS WELL AS A RECHANNELING OF REMAINING AID SO THAT IT MORE CLEARLY COMPLEMENTS GERMAN FOREIGN POLICY OBJECTIVES. SPECIFICALLY THIS MEANS USING AID FUNDS IN AREAS SUCH AS THE MEDITERRANEAN WHERE THE FRG'S FOREIGN POLICY INTEREST IS HIGH AND IN SUPPORT OF SECURING NEEDED FRG RAW MATERIALS. THIS POLICY HAS ALREADY RESULTED IN AN INTERNAL FRG DECISION TO REDUCE ASSISTANCE TO INDONESIA (WE ASSUME THIS IS A PLEDGING OR COMMITMENT DECISION RATHER THAN A DECISION TO REDUCE PRESENT DISBURSEMENTS) FROM DM175 MILLION IN 1974 TO APPROXIMATELY ONE-HALF THAT AMOUNT IN 1975. FOR INDIA, ON FOREIGN POLICY GROUNDS IN LIGHT OF ITS NUCLEAR EXPLOSION IT WILL MEAN A FREEZING OF AID FOR 1975 AT 1974 LEVELS. ASSISTANCE TO SYRIA AND EGYPT IS LIKELY TO INCREASE. FOR OIL PRODUCERS IN GENERAL, THE FRG HAS ANNOUNCED THAT TECHNICAL ASSISTANCE WILL ONLY BE PROVIDED IN EXCHANGE FOR PAYMENT. AGREEMENTS WITH IRAQ AND LIBYA HAVE BEEN SIGNED, WHILE WITH SAUDI ARABIA IT HAS BEEN INITIALLED. FOR SAUDI ARABIA, AS ENVISAGED, THE COST WILL BE APPROXIMATELY DM20 MILLION PER YEAR.

3. THERE ARE IMPORTANT CAVEATS TO THIS TECHNICAL ASSISTANCE APPROACH, HOWEVER. ALGERIA, FOR EXAMPLE, CONTINUES TO RECEIVE CAPITAL AID AND AID MINISTER BAHR RECENTLY INDICATED THE FRG WOULD ASSUME THE COSTS OF A TECHNICAL ASSISTANCE PROJECT FOR URANIUM PROSPECTING FOLLOWING WITHDRAWAL BY THE FRG COMPANY URANBERGBAU FROM A JOINT PROJECT WITH SONAREM. WHILE ASSISTANCE FOR ALGERIA FITS IN WITH THE GOAL OF SECURING RAW

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 14984

MATERIAL SUPPLIES, THE FRG RECOGNITION OF BOUMEDIENE'S
STATURE IN THE THIRD WORLD IS A MAJOR CONSIDERATION.

4. WHILE CHANCELLOR SCHMIDT HAS PROMISED THE FRG
WILL FULFILL ITS BILATERAL AID COMMITMENTS, AID
MINISTER BAHR HAS INDIRECTLY TIED THE REACHING OF
THESE GOALS, ANNOUNCED BY SCHMIDT AT NAIROBI, TO ENERGY
PRICE DEVELOPMENTS. PRICE DEVELOPMENTS AND THE
CHANGE IN THE FRG ANTI-INFLATION POLICY VIA BUDGET
CUTS, ARE TO BLAME, IN BAHR'S EYES, FOR THE
NECESSARY REDUCTION IN THE LEVEL OF ODA ASSISTANCE
TO A PROJECTED LEVEL OF 0.37 PERCENT OF GNP BY 1978.

5. THE FUTURE OF THE FRG'S CONTRIBUTION TO MULTI-
LATERAL FINANCIAL INSTITUTIONS IS LESS CLEAR. WHERE
THE FRG HAS PUBLICLY ANNOUNCED ITS SUPPORT, OFFICIALS
CLAIM THEY WILL MEET THEIR SHORT TERM OBLIGATIONS.

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FOR OTHER MULTILATERAL CHANNELS SUCH AS THE EC, THERE
IS A CERTAIN HESITANCY IN THE FRG'S SUPPORT. THE
FRG HAS FOLLOWED A DELAYING POLICY IN THE EC
ATTEMPT TO CONTRIBUTE \$500 MILLION TO THE MSAS AND
IT IS LIKELY THE FRG'S PREVIOUS ENTHUSIASM FOR OTHER
TYPES OF MULTILATERAL GIVING WILL BE TEMPERED BY CAUTION
IN THE FUTURE.

6. ONE FINAL SCHEME RECEIVING ATTENTION WITHIN THIS
GOVERNMENT IS A PROPOSAL TO COMBINE GERMAN KNOW-HOW

WITH OIL PRODUCERS' CAPITAL TO DEVELOP PROJECTS IN
THIRD COUNTRIES.

IT

IS STILL AN OPEN QUESTION IF ANY PROJECTS DEVELOPED
UNDER THIS SCHEME WILL RESULT IN ASSISTANCE TO POORER
LDCS, AND CAN THEREFORE BE CHARACTERIZED AS AN AID
PROGRAM. PRESENT INDICATIONS ARE THAT THE
OIL PRODUCERS FAVOR PROJECTS LOCATED IN THEIR OWN
COUNTRIES, MORE ADVANCED WESTERN COUNTRIES OR OTHER
MOSLEM COUNTRIES.

HILLENBRAND

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